

# **FEATURING BEST PRACTICES OF STATE AGENCIES AND INSTITUTIONS OF THE COMMONWEALTH OF VIRGINIA**

## **Division of Cash Management and Investments**

### **Investment Management**

**Department of the Treasury  
implemented this best practice  
in January 1995**

*Qualifying under the  
Best Practices catalogue*

3 Provide Capabilities  
32 Support resources  
322 Enhance/upgrade organizational capabilities

### **Best Practice Summary (how it works, how you measure it)**

After an in-depth analysis in 1993 and 1994, a decision was made to have up to 25% of the General Account's investment portfolio managed by a number of professional external managers. This decision was based on the fact that external managers might be able to generate a higher return over long time periods, had more resources, and possessed certain specialized expertise that the Department of the Treasury did not have. While Treasury could have hired individuals with such expertise, it was thought more efficient to use outside managers. An intensive search was conducted in 1994 with the assistance of an investment consultant. Over one hundred proposals were received in response to this competitive request for proposals. Following a careful review and numerous interviews, four managers were initially selected to commence investing on January 3, 1995. A fifth manager was added in October 1995. After a number of additional deposits with these five managers as well as capital gains and earnings which were

generated by this initiative, the value of externally managed investment funds at the end of September 1999 was in excess of \$768 million or about 22% of the total General Account investment portfolio. The success of the program is measured by the additional revenues generated. However, losses may be assumed over shorter time periods. Therefore, it is important that any measurement is over extended time periods, e.g., three to five years, or over an entire market cycle.

## **Impact on the Process Organizational Performance (OUTCOMES)**

The program has been extremely successful. For the 4.5 year period ending June 30, 1999, the external management program generated about \$26.5 million in additional revenues for the General Account investment portfolio.

## **Best Practice Qualification**

The practice was identified by the Department of Treasury investment consultant following a 1993 review of the General account's investment practices. After careful analysis by Treasury's investment staff, it was determined that the potential additional investment income was well worth the prudent additional risk that was assumed in commencing with this program.

## **For Additional Information**

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